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FISCAL IMPACT STATEMENT

LS 6404

BILL NUMBER: SB 389

NOTE PREPARED: Feb 2, 2010

BILL AMENDED: Feb 1, 2010

SUBJECT: Information on Individual Development Accounts.

FIRST AUTHOR: Sen. Breaux

FIRST SPONSOR: Rep. Day

BILL STATUS: As Passed Senate

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill requires a caseworker of a foster child to provide information to the child and parent(s) of a child concerning individual development accounts.

Effective Date: July 1, 2010.

Explanation of State Expenditures: (Revised) *Summary:* This bill will increase the workload of DCS staff to provide Twenty-First Century Scholar recipients and their parents additional information concerning individual development accounts (IDA). However, increases are expected to be minimal. Information provided by DCS workers to Twenty-First Century Scholar recipients may increase the number of individuals who utilize the IDA program.

As a result of this bill, an estimated 46 foster youth may be expected to utilize an IDA, which may increase state expenditures to provide an IDA match. Any increase in expenditures depends on (1) which entities provide the match (either the state, financial institutions, corporations, or other entities), (2) available resources, and (3) legal restrictions associated with the IDA program. Additionally, if the state experiences increases in expenditures under the IDA program within the current appropriations limits, reversions to the General Fund will decrease.

If the state were to provide a match for the 46 foster youth, state expenditures could increase by a maximum of \$165,600 during the biennium (\$55,200 in FY 2011 and \$110,400 in FY 2012). During FY 2009 and FY 2008, IHCA reverted \$800,000 and \$10,000, respectively, to the General Fund from the IDA program.

Additional Information:

Independent Development Account Management: IDAs are managed by private, nonprofit community development corporations. Increasing the IDA utilization rate will not increase the workload of the Indiana Housing and Community Development Association (IHCDA). Money in an IDA is matched by the state and is dedicated towards specific purchases (including education-related costs).

Estimating the Annual Income of Youth: According to the Bureau of Labor Statistics, for the third quarter of 2009, the median weekly earnings of full-time workers between the age of 16 and 19 were approximately \$330. Assuming full-time to be 40 hours per week, and assuming the average individual between 16 and 19 years old works only 10 hours per week, the estimated median weekly income for this age group is expected to be \$83 a week, or \$4,300 per year. The saving habits of this population are not known. Assuming Twenty-First Century Scholars would have incentive to save at least 10% of their income, annual contributions to an IDA can be expected to be an average of \$430 per year per Twenty-First Century Scholar.

State Match for IDA Savings: The IHCDA (along with financial institutions, corporations, and other entities) provides a match for money saved in IDAs. For the first \$400 dollars an IDA participant saves per year, the State of Indiana may provide a 300% match (for a total state expenditure of \$1,200 per IDA participant per year). In the event that an IDA participant saves in excess of \$400 in a given year, and up to \$800 in the same year, the state may match excess savings at the 300% rate (depending on fund availability). The state provides the matching incentive for either (1) a maximum duration of four years or (2) a maximum state expenditure of \$2,400 for a particular IDA, whichever comes first. Currently, only 2.6% of IDA participants are considered "youth", age 19 and younger. The total appropriation for FY 2010 and FY 2011 is \$1 M per fiscal year.

Foster Youth Enrolled in Twenty-First Century Scholar Program to Date: According to the State Student Assistance Commission of Indiana (SSACI), 924 foster youth (approximately 462 per year) enrolled in the Twenty-First Century Scholars program since program eligibility was expanded to foster youth beginning July of 2008. It is not known how many more foster youth will enroll in the Twenty-First Century Scholars program and will receive information from DCS staff.

Estimating State Cost for IDA Match: Per statute, a maximum of 1,000 new IDAs may be created each year. Assuming at least 462 foster youth will sign up for the Twenty-First Century Scholars program per year, and if 10% of the foster youth that would receive IDA information begin using IDAs each year, then an estimated 46 foster youth could be expected to begin using IDAs each year. Provided the new IDA cap has not been reached, the total new IDAs that would be eligible for a state match are expected to be 46 in FY 2011 and 92 in FY 2012. Assuming these foster youth would save at least 10% of their annual income (see *Estimating Annual Income of Youth*, above), or \$430 a year in IDA savings, state expenditures may increase by \$1,200 per foster youth per year to provide the match. .

Explanation of State Revenues: *Summary:* For the first \$400 dollars an IDA participant saves per year, financial institutions, corporations, and other nongovernmental entities may provide a 300% match (for a total state expenditure of \$1,200 per IDA participant per year). These contributions can be claimed for a state tax credit of 50%. The actual extent to which these credits will be claimed is unknown. However, if (1) this bill increases the number of IDAs in the state held by foster youth, (2) the annual match provided by financial institutions, corporations, and other nongovernmental entities, and (3) any increase in the annual contribution amount is within the legal cap, there may be an indeterminable reduction in state revenue (subject to legal restrictions associated with IDA tax credits mentioned below).

Additional Information: Individual Development Accounts, established by IC 4-4-28, are accounts in financial institutions administered by community development corporations that allow individuals to deposit money for the purposes of tuition, books, and other expenses incurred at a postsecondary institution, vocational school, or training program. Money deposited in these accounts may be matched by the state, financial institutions, corporations, and other entities. If the contribution of a nongovernmental agency is greater than \$100 but less than \$50,000, a tax credit may be claimed for 50% of the contribution. The minimum amount able to be claimed would be \$50, and the maximum amount would be \$25,000 for individuals. No more than \$200,000 in tax credits may be claimed in any state fiscal year.

In tax year 2006, a total of 97 individual and corporate filers claimed \$168,232 in Individual Development Account credits, and in tax year 2007, a total of 53 individual and corporate filers claimed \$131,908.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DCS, IHCD, DOR.

Local Agencies Affected:

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